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DIRECTORATE OF  
INTELLIGENCE

# *Central Intelligence Bulletin*

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23 October 1970

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Approved For Release 2003/03/28 : CIA-RDP79T00975A017400080001-0

Approved For Release 2003/03/28 : CIA-RDP79T00975A017400080001-0

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No. 0254/70  
23 October 1970

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JAPAN-USSR: Prime Minister Sato's injection of the Northern Territories issue into his speech at the UN on 21 October is likely to irritate Moscow.

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Aside from bolstering his domestic image, Sato's insistence on bringing up the issue reflected his desire to contrast the willingness of the US to return Okinawa with the obdurate attitude of the Soviets on the Northern Territories. In the midst of continuing Soviet propaganda attacks on the "resurgence of Japanese militarism," Sato apparently also wanted to reaffirm Japan's intention to settle the problem amicably. Failure to reach a solution has been the principal obstacle to the signing of a World War II peace treaty between the two countries.

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SOUTH KOREA: Recent statements by Foreign Minister Choe Kyu-ha reflect further relaxation in Seoul's anti-Communist foreign policies.

In answer to questions in the National Assembly, Choe indicated that Seoul's long-standing policy against diplomatic relations with governments that have diplomatic relations with Pyongyang henceforth would be applied selectively; South Korean policy now permits at the most consular representation in such countries. A test case may soon arise in Santiago where Seoul will have to decide whether to close its embassy if, as seems likely, the next Chilean Government establishes diplomatic relations with Pyongyang.

Choe's remarks came in discussions concerning a government-proposed bill authorizing trade with "nonhostile" Communist countries. They reflect the growing realization by many South Korean leaders, including President Pak Chong-hui, that continued adherence to rigid anti-Communism in foreign affairs could lead to Seoul's isolation. Nevertheless, translation of this new thinking into action will only come about slowly at best. The caution displayed by Choe before the Assembly is prompted by an awareness that "softness towards Communism" can still be dangerous in domestic politics. [redacted]

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EUROPEAN COMMUNITY - UK: The EC Commission has taken sharp issue with the British estimate that the financial costs of Common Market membership may be disproportionately high.

In an evaluation of a British paper submitted last July, the Commission states that London has considerably exaggerated the share of the Community budget which it will be contributing by 1978 and has underestimated the amount the UK will receive from the common agricultural fund. The Commission says that the UK contribution could be as low as 20-25 percent--compared with the British estimate of 31 percent.

The Commission emphasizes that London, by also underestimating the dynamic nature of the Community, has come up with much too gloomy a view of what the British stand to gain. The Commission contends that the UK is likely to benefit in particular over the next decade from the EC's progress toward economic and monetary union and from its social and industrial policies.

The Commission also points out that should an "unacceptable situation" arise, the Community institutions are required to find a fair solution. Therefore the Commission reiterates its opinion that no obstacles stand in the way of British participation in the Community and that transitional measures will make such participation possible.

The British, whose next meeting with the EC at the ministerial level is on 27 October, may have mixed feelings about the Commission evaluation. London could use it against domestic critics attacking the high costs of Common Market membership. On the other hand, the British may feel that their case for requesting longer transition and "stand-still" periods has been weakened. In any case, the Commission report could pave the way for more detailed discussion of the key issues in the accession talks.

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CHILE: The attempted assassination of Army Commander in Chief Rene Schneider yesterday has raised tensions but is unlikely to affect the congressional confirmation of Salvador Allende as president-elect on Saturday.

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The Frei government will use the emergency powers, which were invoked immediately, to maintain order.

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BOLIVIA: The government has announced the capture of Oswaldo "Chato" Peredo, leader of the pro-Castro National Liberation Army (ELN). Some press reports, however, say he was killed. Peredo's capture or death is a significant loss for the guerrilla forces north of La Paz, which have suffered major setbacks in clashes with the army since July. Chato assumed leadership of the ELN last year after his brother--who had rebuilt Che Guevara's organization--was killed by Bolivian police. Peredo's capture and other personnel losses will probably force a reorganization within the ELN. It could be several months before the group can undertake significant operations.

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NICARAGUA - COSTA RICA: The pro-Castro guerrilla movement in Nicaragua received a shot in the arm yesterday when Costa Rica released Carlos Fonseca, leader of the Sandinista National Liberation Front (FSLN), and three of his followers after the hijacking of a Costa Rican airliner on Wednesday. Fonseca had languished in a Costa Rican jail since August 1969 when he was arrested for bank robbery.

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The success in obtaining Fonseca's release may encourage other hijackings or kidnappings.

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USSR: The Soviet industrial sector continues to register a significant improvement over last year's poor economic performance, but its growth rate has slowed slightly since mid-year, according to the Soviet press. The Soviets claim that industrial production during the first nine months of this year grew by 8.3 percent and labor productivity by 7.2 percent, compared with 7.0 percent and 4.6 percent, respectively, during the same period of 1969. Most industrial sectors grew at about the same rates posted at mid-year, but Moscow admits to "shortcomings" in the production of consumer goods. The growth rates of 13 of the 26 listed categories of consumer goods declined as compared to their mid-year performances.

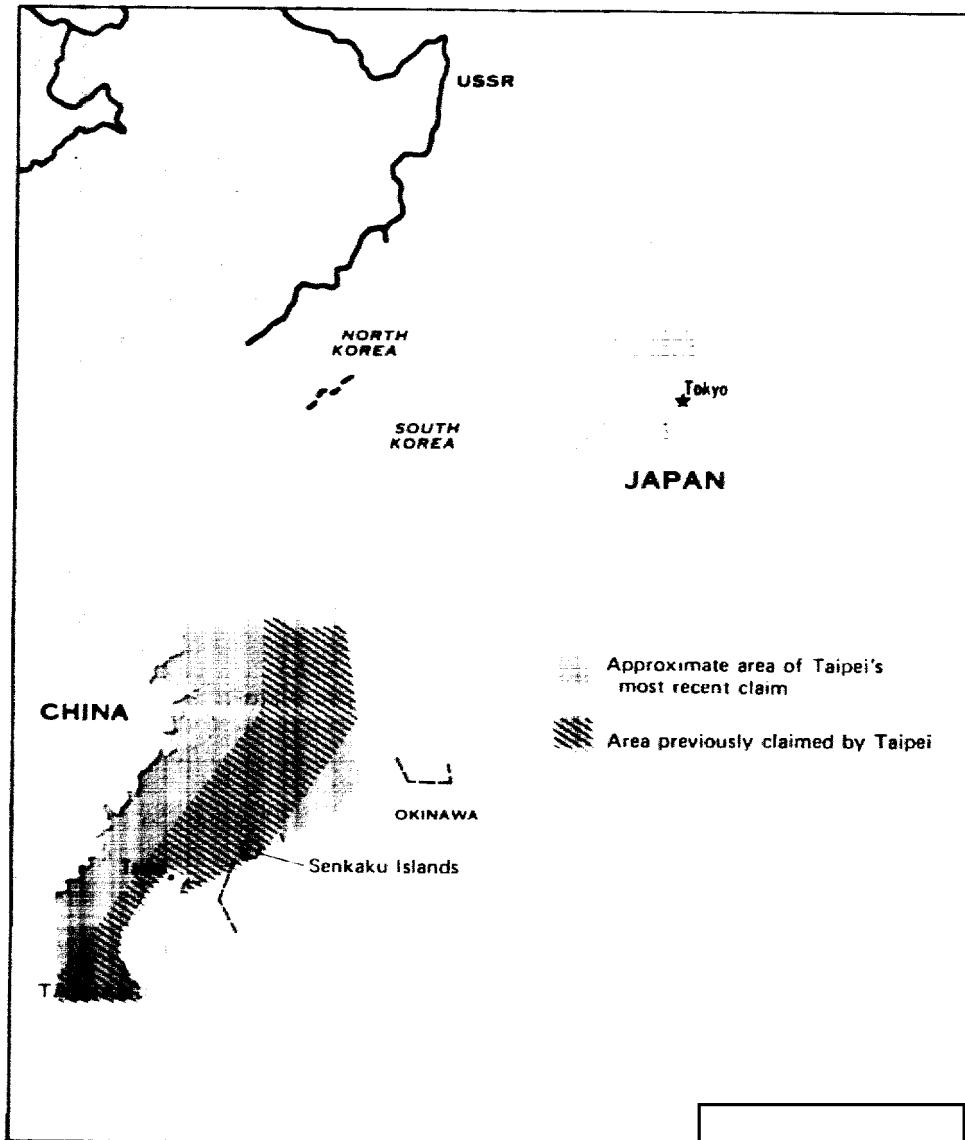
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## Taipei Increases Offshore Oil Claims



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TAIWAN: Taipei's recent move to increase the area in the East China Sea to which it claims off-shore oil rights is likely to complicate further an already touchy situation. Taipei recently announced awards to Western companies for oil exploration, which included most of the East China Sea, from the Chinese mainland on the west to Okinawa on the east. Former Nationalist claims have stayed clear of the mainland and extended only to about the 200-meter depth-line on the east. This latest move includes an area subject to conflicting claims by Taiwan, Japan, and South Korea, and may elicit some comment from Peking, which thus far has been silent on the issue.

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